



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF POSTSECONDARY EDUCATION

JUL 1 1997

SUMMARY: Rescission of previous guidance concerning interest rebates to secure "cures." *

Dear Guaranty Agency Director:

In December 1994, Department staff responding to a lender's inquiry, indicated that, in attempting to cure due diligence or timely filing violations on an FFELP loan, the lender could offer to waive a portion of the accrued interest outstanding if the borrower made a curing payment or signed a new repayment agreement. Under the proposal, the lender could not include the waived interest in a claim request or bill the Department for interest payments or special allowance payments thereon.

Recent inquiries about this practice have prompted us to reexamine this guidance. We have determined that there is no basis for treating such a waiver of interest differently from situations in which the lender pays the borrower to cure the loan or makes the curing payment for the borrower. We have consistently refused to reinsure loans in these latter situations and believe that the same rule should apply to situations in which the lender waives interest owed by the borrower. Therefore, in accordance with 34 C.F.R. Section 682, Appendix D, sections A, and I.B. 1, we have determined that it is not in the best interests of the United States to permit a lender to arrange for a cure of its due diligence or timely filing violations by waiving interest owed by the borrower. Accordingly, the Department's guidance of December 1994 is no longer effective.

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This action does not affect any cures a lender may have submitted and that a guaranty agency may have accepted under the December 1994 guidance. However, for claims submitted by lenders on or after July 1, 1997, the Department will no longer recognize the December 1994 guidance as an acceptable method by which a lender can achieve a "cure." This letter has also been sent to each regional office of the Department, plus the National Council of Higher Education Loan Programs, Inc., and the Consumer Bankers Association.

Please note that the rescission of the December 1994 guidance has no effect on a lender's right to voluntarily waive outstanding or future interest owed by a borrower. However, attempts to cure a due diligence or timely filing violation by means of offering this type of *quid pro quo* arrangement (waiving interest if the borrower makes a curing payment or signs a repayment agreement) will no longer be permitted on or after July 1, 1997.

Sincerely,



Pamela A. Moran
Chief, Loans Branch
Policy Development Division
Student Financial Assistance Programs